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SUBJECT: BIOFUELS IN BRAZIL

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11. (SBU) SUMMARY: The U.S. Brazil biofuels steering committee met at the technical level on August 20 in Brasilia, following the postponement of travel to Brazil by Under Secretary for Economic Affairs Reuben Jeffery. The meeting included a highly constructive private sector element and a very positive technical level working group meeting. There are opportunities to continue moving forward under each of the three pillars of the bilateral biofuels Memorandum of Understanding (MOU) (bilateral, third country, and international) and to address some sector needs identified by the private sector. Brazil's high level biofuels summit planned for November 17 - 21 in Sao Paulo presents an excellent catalyst for action under the MOU. This is the optimal time for moving the biofuels agenda forward, building on the sense of positive momentum and interest in achieving demonstrable results for upcoming biofuels events. END SUMMARY.

12. (SBU) The August 20 technical level meeting of the U.S. Brazil Biofuels Steering Committee was opened by Ministry of External Relations (MRE) Ambassador Evarton Vargas, who with support from Ambassador to the United States Patriota and Director of the Energy Division Andre Correa do Lago, led the Brazilian side for the first part of the meeting. Greg Manuel, State Department International Energy Advisor, along with Ambassador Cliff Sobel, led the U.S. side. Vargas noted that though he regretted the postponement of Under Secretary for Economic Affairs Reuben Jeffery's trip to Brazil, it presented some opportunities to make progress in preparation for the eventual Steering Committee meeting. Ambassador Sobel disclosed that likely dates for a postponed Jeffery trip were October 1-3. Vargas said that his successor in what is to be a newly created position of Undersecretary for Energy and Technology, Andre Amado (currently Ambassador to Japan) would be taking up his post on October 10. Vargas and MRE Energy Division Director promised to inquire as to whether Amado could arrive in Brasilia early enough to take part in a Committee meeting on Jeffery's proposed dates. (Note: Post has learned that Amado is willing to change his travel plans to be available for an October 2 meeting.)

13. (SBU) Greg Manuel opened the meeting up to the private sector advisory group via conference call. Private sector participants included Jeffrey Leonard, President and CEO, Global Environment Fund and Max Guinn, Senior Vice President, Deere & Company on the U.S. side and Jos Luiz Olivrio, Vice President, Dedini S/A, also representing the Brazilian Machinery Builders Association (ABIMAQ), Marcos Sawaya Jank - who attended in person, President of the Brazilian Sugar Cane Industry Association (UNICA) and Marcio Nappo, UNICA's Environmental Advisor, who also attended in person, for the Brazilians. After Manuel reviewed a list of accomplishments under the MOU, Jank took the floor to present a proposal with six items UNICA has identified as private sector action priorities (proposal has been emailed to WHA/BSC, WHA/EPSC, EEB, FCS, and DOE.)

14. (SBU) Jank prefaced his proposal by noting the need for the U.S. and Brazil to continue working together, both to counter anti-ethanol forces and to maximize the potential for commercial partnerships given the U.S.'s technology and investment capacity and Brazil's feedstock scale and infrastructure. Jank's proposal included: 1) fast track environmental licensing in Brazil for site selection, 2) joint recognition of fuel quality specifications and production process certification schemes, 3) facilitating approval for next generation technologies entering Brazil, 4) a lifting of geographic restrictions to permit funding from U.S. public grants to be utilized in joint research projects in Brazil, 5) improved U.S. market access for next generation products from U.S.- Brazilian joint ventures, and 6) a series of entrepreneurial meetings with members of private sector advisory group, and other interested members of the private sector to address issues in the biofuels sector and develop commercial opportunities. Jank noted that he had consulted numerous private sector entities in Brazil in preparing his proposal, including CTC, EMBRAPA, etc. He proposed that the advisory group consider meeting in person for a one day discussion on the margins of the November biofuels conference and that perhaps the first preparatory meeting could be held by the end of September.

15. (SBU) Jank's proposal was well received by all parties. Ambassador Sobel suggested working closely with the private sector to fully develop these ideas into a joint advisory group proposal, permitting the governments to respond to the expressed interests of the private sector representatives. Both Oliveira of Dedini and Quinn of Deere Co. stated their interest in supporting such a proposal, though Glen cautioned that one possible area of concern regarding joint research projects could be confidentiality provisions in existing research and development agreements.

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Ambassador Patriota suggested it would be useful if the private sector advisory group examined the three pillars of the MOU (bilateral scientific cooperation, multilateral standards cooperation, and third country assistance) from a private sector perspective and made recommendations as appropriate.

16. (SBU) The meeting also addressed sustainability issues. During Manuel's opening report, he noted that as a practical matter there was now a fourth pillar to the biofuels relationship: the sustainability task force and then went on to describe joint sustainability efforts in the G-8 established Global Biofuels Energy Partnership (GBEP). Later in the meeting, Quinn inquired about the possibility of incorporating the Alliance for Abundant Food and Energy which includes Deere, ADM, Dupont and others in the sustainability discussion. Manuel noted that the international commercial alliance MOSAN, with 800 members, was involved in the GBEP process and further constructive private sector engagement would be welcome. Manuel committed to get the appropriate contact information to Quinn. Vargas noted that having this type of involvement was crucial, since other private sector influences were having strong effects in countries like Germany. Jank endorsed what he saw as the more balanced approach via GBEP and remarked that UNICA now has five people working full time to address sustainability and respond to the plethora of fora examining these questions.

17. (SBU) With an eye towards Brazil's November 17-21 biofuels conference, Ambassador Patriota suggested that to ensure continuity of the steering committee work, perhaps members of the incoming transition team could be invited to attend the conference. The GOB also confirmed that they will be inviting prominent members of Congress to attend the conference as well. Ambassador Sobel suggested that perhaps there would be some work out of the 2007 Biofuels MOU Standards group that could be either presented or announced at the conference. Sobel also discussed the need to compile a register of all ongoing research efforts in both countries and Vargas enthusiastically agreed.

TECHNICAL WORKING GROUP

18. (SBU) In the technical working group meeting that followed, the Head of MRE's Energy Division, Andre Correa do Lago noted that both he and Ambassador Vargas were now in support of expanding third country assistance to five countries but they were encountering unspecified internal resistance among those who want to expand the third country tranche by only two countries out of a concern about

getting over extended and wanting to ensure quality work. Head of MRE's Renewable Energy Division, Claudia Vieira Santos, noted that the outreach component was important as well and that we should be defining our outreach strategy so that once a decision is made on the additional countries, we can begin that outreach.

¶9. (SBU) Both sides expressed alarm at the current trajectory of the sustainability argument in Europe, particularly in Germany and in the European Union, and agreed on the need to work together to counter protectionist forces using the sustainability argument to exclude outside sources of ethanol from entering European markets. Do Lago pointed to the more positive Swedish model in which Swedish importers developed a specific voluntary contract with particular Brazilians mills, ensuring that sustainability priorities indicated by consumer research would be respected as part of their sales agreements. There was also concurrence on the importance of maintaining a science-based discussion in GBEP, despite the Brazilians' repeated misgivings about the G-8 focused nature of the forum, and ensuring that any criteria which are used to ensure sustainability of biofuels are measurable.

¶10. (SBU) Much of the ensuing discussion focused on how to use the prospects of the November conference to advance the agenda. Both sides further agreed that it is important to document all ongoing research efforts and foster lab-lab, public/private partnerships with public/private partnerships, and university to university cooperation. It was also agreed that bilaterally we should prepare as much in the way of deliverables for the November conference as possible, including on standards if at all possible, and on third country cooperation. Manuel pledged to provide the GOB with his briefing materials on all the ongoing third country cooperation projects. Although they said that the attempts by the standards agency, INMETRO, to put together a Brazilian sustainable biofuels certification was "dead," the Brazilians also previewed a new plan to be presented at the November biofuels conference which will detail agricultural environmental zones, a mapping of the arable land in Brazil with 3 sustainable development designations: 1) optimal for developing sugar cane, 2) okay but not optimal, and 3) off limits to development.

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¶11. (SBU) At a follow up meeting between Ambassador Sobel, Manuel, and do Lago the same day, the Ambassador suggested that high level attention from the White House and its Brazilian counterpart, Casa Civil, would be useful in maintaining the new momentum of the private sector advisory group and suggested we examine a model similar to the CEO Forum to demonstrate the importance placed by both governments on this work.

¶12. (SBU) COMMENT: The main result of the August 20 biofuels meeting is the sense of positive momentum and interest in achieving demonstrable results, in part in response to the private sector initiative, and in part to ensure deliverables for Brazil's November biofuels conference. This is the optimal time for moving the biofuels agenda forward. The most immediate ways to do that are: 1) Private sector: members will exchange email addresses and discuss UNICA proposal further. We will encourage entrepreneurial meetings in September as Jank discussed as well as on the margins of the November conference, focusing on technological integration and financing; 2) Research: The USG and GOB should work together to establish databanks or registries of R&D efforts on both sides to facilitate matchmaking, 3) Third countries: USG and GOB should reach consensus on which countries to add to third country cooperation, and define outreach plan to selected countries, as well as achieve clarity on funding for each, 4) Standards: The Steering Committee should further explore what work from the Standards working group might be possible to present as a deliverable for the Nov. conference, 5) Sustainability: GOB and USG should continue to work on a sustainability strategy, including joint approaches to the EU and ways to highlight the work of GBEP sustainability group at Nov. conference. Post looks forward to U/S Jeffery's early October visit as an opportunity to have a formal Steering Committee meeting and achieve progress in these areas in advance of the November biofuels conference.

SOBEL